

The Road to Revitalizing Air Force Utility System Infrastructure

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"Historically, military installations have been unable to upgrade and maintain reliable utility systems due to inadequate funding and competing installation management priorities. Utilities privatization is the preferred method for improving utility systems and services by allowing military installations to benefit from private sector financing and efficiencies."

—Honorable Paul D. Wolfowitz, Deputy Secretary of Defense, October 2002

The Air Force has adopted a revised, two-pronged approach to revitalizing the utility systems on its bases. This approach incorporates the current utilities privatization, or UP, program and ties the results of that process to a new Utility System Master Plan concept. The Master Plan will ensure a more comprehensive analysis, planning and programming process is available to upgrade all utility systems to acceptable functioning levels to meet base mission requirements.

The fact that the Air Force and its sister services have experienced a decline of investment in mission-critical installation infrastructure over a period of many years was underscored in the most recent Installation Readiness Report, in which eight Air Force MAJCOMS assigned utilities and grounds a C-3 or C-4 rating. A C-3 or C-4 rating means the facilities have serious problems or do not support the mission. The 2003 backlog of work needed to reduce those ratings to a C-2 (minimally acceptable performance) or C-1 (full readiness performance) has ballooned to an astounding \$1.38 billion for utilities and grounds alone.

To expedite improvement of utility systems, the Office of the Secretary of Defense directed the services to take advantage of private sector financing and efficiencies through privatization and asset sale of utility systems. Further, in 2001 OSD issued Defense Planning Guidance directing the services to revitalize all facilities and infrastructure to no less than a C-2 rating by 2010.

The Requirement

OSD originally issued Defense Reform Initiative Directive #9 in 1997, directing the services to divest themselves of all utility systems when economically viable by September 2000. Exemptions from this requirement were granted when privatization would result in a negative security or readiness impact to the installation. To facilitate the process, Congress passed 10 USC § 2688 authorizing the sale of DoD utility systems.

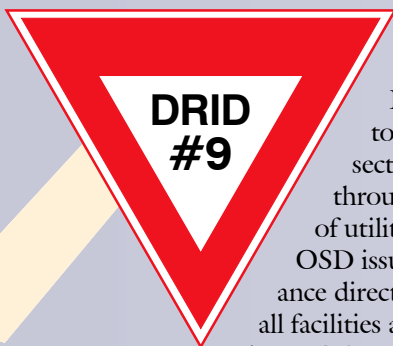
The Air Force launched its UP program in 1998 and began a methodical analysis of all Air Force-owned utility systems. In developing the program, the Air Force established two primary goals: divesting activities not considered "core" to the Air Force mission, and improving the condition of utility systems while providing long-term benefits and savings to the Air Force.

The deadline for completing the privatization process has been extended twice since the program began. In December 1998, OSD issued DRID #49, which extended the completion date to September 2003 and provided additional guidance for determining the economic feasibility of privatization projects. In October 2002, OSD issued further UP guidance that re-emphasized the importance of completing privatization analyses and also extended the deadline for finishing the UP process to September 2005.

The Pathfinders

Although the Air Force diligently pursued UP from the beginning of the OSD program, the process was complex and filled with potential pitfalls. To minimize the risks to Air Force resources, the UP Pathfinder program was created. Under this program, the Air Force selected 71 systems at 26 Active, Guard and Reserve bases and carried them through the entire UP process. This strategy was designed to gather lessons learned and incorporate them into future privatization efforts.

The privatization analyses for the remaining Air Force utility systems were placed on hold until the



Pathfinder process was complete. As a result of the Pathfinder program, more than 130 lessons learned were incorporated into the UP strategy. This resulted in significant changes to Request for Proposal templates, economic analysis models, and Air Force UP policy and guidance that greatly improves the UP process.

Restarting the Process

To meet the new OSD privatization deadline, the Air Force recently restarted the UP program for the 194 utility systems previously placed on hold. MAJCOM and base civil engineers have primary responsibility for execution of the UP program with programmatic and technical assistance from the Office of The Civil Engineer and the Air Force Civil Engineer Support Agency. At each base with potential privatization candidates, a UP Integrated Process Team will be established to execute the analysis. This IPT will be comprised of representatives from Civil Engineering, Finance, Contracting, Legal, Security Forces and other offices as required.



Integrated Process Team

To restart the process, the IPT will develop the specifics of the RFP, appoint a Source Selection Authority, develop acquisition and source selection plans, collect utility data, and assist in the development of a government estimate to determine the cost of retaining the utility systems. At most installations, a Request for Interest or Sources Sought will be issued for each system to determine the level of potential industry interest in privatization. If more than one company expresses interest, a competitive RFP will be issued. If only one company expresses interest, a streamlined sole source RFP will be issued. If no companies express interest, OSD requires the services to contact the local utility provider to determine if they are interested.

If proposals are received, the IPT will evaluate them to determine if they meet the technical requirements of the RFP and if they are less expensive than the government cost for retaining the system. Based on this evaluation, the SSA will decide whether to award the project or declare it uneconomical. If a decision is made to award the project, the utility system will be transferred to the successful offeror after a 21-day Congressional notification. If no technically and economically viable proposals are received for a particular system, the Air Force will notify OSD that the system is exempt from privatization.

A Master Plan

Although OSD prefers to use privatization for revitalizing utility systems, the Air Force has found this option is not always viable. In many cases industry is not interested in buying Air Force utility systems, and in others the proposals are technically and/or economically unacceptable. To meet the Defense Programming Guidance goal of bringing all facilities and infrastructure to at least a C-2 rating by 2010, the Air Force recognized the need for another tool in the utility revitalization toolbox. To this end, the Air Force is developing the Utility System Master Plan.

The Master Plan lays out an investment strategy that determines the specific funding and timing of funding needed to bring utility systems to a C-2 rating and maintain them at that level. To develop the plan, each base, assisted by an AFCESA Architect and Engineer firm, will develop a detailed condition assessment of their utility systems. They will also evaluate life cycle costs for the components of the system and estimate sustainment, restoration and modernization funding requirements.

When implemented, the Utility System Master Plan will be an invaluable tool for determining funding requirements for each system as well as proper maintenance schedules to sustain a minimal C-2 rating. This will give MAJCOMs, commanders and base civil engineers the ability to apply ever-diminishing resources to their utility systems in the most effective manner.



The End Result

Revitalization of Air Force utility systems is vital to maintaining our ability to support the Air Force mission. The Utilities Privatization Program is the first step in improving utility system infrastructure. Through privatization and implementation of the Utility System Master Plan, the Air Force plans to meet the Defense Programming Guidance goal by 2010 and ensure the Air Force continues to fulfill its global mission requirements.

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